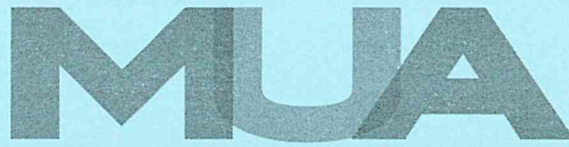


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF MANAGEMENT AND LEADERSHIP

BML 305 : AUDITING

DATE: 28TH JULY 2017

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX(6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. **ALL** Question S carries **EQUAL MARKS (15 MARKS each) .**
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

INTEGRATED CONSULTING ENGINEERS LTD

Integrated Consulting Engineers Ltd. has undergone a period of substantial growth since its establishment ten years ago. Due to lack of accounting expertise within the company, it has traditionally instructed its auditors, Shah & Company (CPA) to perform the two functions of accountancy and auditing. Shah & Company have also provided consultancy services to the company.

Arising from these responsibilities, Shah & Company earn 20% of their gross fees from Integrated Consulting Engineers Ltd.

Required:

- a) Discuss the acceptability and desirability of Shah & Company continuing to act as accountants, auditors and consultants for the company. (13 marks)
- b) If, despite having been re-elected as the company's auditors, Shah & Company decide to resign during the year, state the procedures they should follow. (6 marks)
- c) What action should Integrated Consulting Engineers Ltd. take on receipt of the letter of resignation from Shah & Company? (6 marks)

QUESTION TWO

Three important aspects of an audit which must be planned for well in advance are:

- 1. Audit staffing requirements;
- 2. The timing of the audit field visits;
- 3. Clients use of computerised systems.

Required:

- a. Explain the importance of each of the above matters for the successful conduct and completion of the audit. (9 marks)
- b. Identify and list in point form the inputs to the planning process in respect of each of the three items stated above. (6 marks)

QUESTION THREE

- a. The external auditor of a company uses the system of internal control to determine the nature, extent and timing of his audit tests.
- i. Whose responsibility is it to ensure the existence of a strong system of internal controls? (2 marks)
- ii. What value does a client obtain from the external auditor with respect to internal controls? Explain how the auditor provides that value. (3 marks)
- b. What is the main role of the internal auditor with respect to internal controls? (4marks)
- c. How does the external auditor assure himself that internal audit is effective? (6 marks)

QUESTION FOUR

The auditing guideline on 'planning, controlling and recording' contains the following statement with regard to working papers: 'audit working papers should always be sufficiently complete and detailed to enable an experience auditor with no previous connection with the audit subsequently to ascertain from them what work was performed and to support the conclusions reached.'

Required:

- a) Describe four benefits that the auditor will obtain from working papers that meet the above requirement. (4 marks)
- b) If the auditor has discovered that a claim for damages is a significant item requiring exercise of judgement in the financial statements, show what type of evidence on the matter the auditor must record in the current file. Give reasons for the inclusion of such evidence in the current file. (6 marks)

- c) List three types of information which is normally retained in the audit file and state why such information should be available for reference in the course of an audit. (3 marks)
- d) Comment on the desirability of using standardised working papers and give an example of such working paper and its use. (2 marks)

QUESTION FIVE

The principle objective of the verification of liabilities, commitments and contingencies is to form an opinion as to their completeness, existence, valuation and presentation in the financial statements.

Required:

- a. Why does the auditor examine statements received from suppliers of goods and services? (6marks)
- b. How would the auditor ensure that at the year end all goods received by a client were included in both inventories and creditor balances? (4 marks)
- c. How would the auditor ensure that the amounts accrued for wages and salaries due but unpaid were properly calculated and recorded in the books? (3 marks)
- d. What tests would the auditor need to undertake in order to ensure that capital commitments at the year end were fairly stated in the books? (2 marks)

QUESTION SEVEN

The Companies Act (Cap.486) sets out the duties of the auditors for a company in respect of his report and other matters.

Required:

- a. State three situations under which the Act requires auditors to qualify their report. (6 marks)

- b. State two circumstances in which the auditors may qualify their report owing to inherent uncertainty. (4 marks)
- c. State five types of circumstances in which the auditors may qualify their report as a result of disagreement with the directors (5 marks)

